

## Frequently Asked Questions about the Homeowner Tax Credit Program

### Eligibility for the Credit

#### How do I find out if my property is eligible?

**Answer:** Your property is eligible if it has one of the following designations:

1. Contributing property within a National Register Historic District
2. Individually designated property within the National Register of Historic Places
3. Contributing property within a local historic district\*
4. Local individually designated property\*

You can find a list of National Register Historic Districts in Maryland on MHT's website at:

[http://mht.maryland.gov/research\\_nationalregister.shtml](http://mht.maryland.gov/research_nationalregister.shtml). MHT's database, [Medusa](#), can also be used to find information on your property and whether it is within a historic district or individually designated in the National Register by searching your address or historic district name. County governments and municipalities maintain lists of locally designated historic properties. Contact your local planning office for information. \*Local designations must also meet National Register criteria for eligibility, a determination made by the MHT.

#### How do I find out if my property contributes to the significance of a National Register or local historic district?

**Answer:** This is the purpose of the Part 1 application, "Certification of Significance." Nomination forms for both the National Register and local historic designation lists may identify contributing properties within the district boundaries. Use the links above to find Maryland's National Register Historic Districts. Whether a structure contributes to the significance of a historic district is ultimately determined by MHT based on all available documentation.

#### My home is in a National Register Historic District. Do I need to submit a Part 1 application?

**Answer:** Yes. Contributing properties within a historic district must still be certified as an historic structure. MHT uses the Part 1 application to review the integrity and significance of the property with the historic district designation. Generally, a property within a historic district has no issues with the Part 1 certification. Only those properties that are individually designated in the National Register of Historic Places are exempt from submitting a Part 1 application.

**I am working on designating my property but want to get started on the rehabilitation project now. Can I submit the Part 1 and Part 2 applications before my property is officially designated?**

**Answer:** You may apply for the tax credit once a draft nomination has been submitted to MHT. The tax credit program statute requires that a structure be officially designated, either by the local government or the National Register, by the end of the calendar year in which the rehabilitation project was completed. Failure to receive this designation by the required deadline will result in the rehabilitation being ineligible for the tax credit.

**My house is owned by a Personal Residence Trust or Qualified Personal Residence Trust. Can I still apply for the Homeowner tax credit?**

**Answer:** Yes, but a beneficiary of the trust must also be an occupant of the residence. Additional documentation to confirm the beneficiary may be requested.

**My house is owned by an LLC (Limited Liability Company). Can I still apply for the Homeowner tax credit?**

**Answer:** No. Homes owned by LLCs, LLPs (Limited Liability Partnerships), or LLLPs (Limited Liability Limited Partnerships) are not owner-occupied residences and therefore the owner may not submit a Homeowner application. You may be able to apply for the Commercial program, or, if the property is depreciable, you may apply for the Federal program.

**I own a condominium in a historic building and it is my personal residence. Can I apply for the Homeowner tax credit?**

**Answer:** Yes. However, only qualified rehabilitation expenditures for rehabilitation of the occupant-owned portion are eligible for the credit.

**What if I own my personal residence, a portion of which is also income-producing? Can I apply for the Homeowner tax credit?**

**Answer:** Yes. If the owner is proposing work for a portion of the interior that is exclusively the owner-occupied residential portion of the structure and/or the exterior envelope of the structure, they are eligible to apply for tax credits. Infrastructure elements such as HVAC, plumbing, electrical, and shared spaces, etc. will be prorated based on the appropriate square footage.

**For mixed-use properties (owner-occupied combined with income-producing), how should I interpret my eligible costs and expenses?**

**Answer:** Only those costs associated with the rehabilitation of the owner-occupied residential portion of the structure and/or exterior envelope of the structure, along with expenses associated with prorated systems such as HVAC, plumbing, electrical, etc. are eligible. Applicants are required to submit with the Part 3 application a detailed itemized spreadsheet that shows the breakdown of these expenses and what work items pertain to each (owner-occupied vs. income-producing) within the structure.

## Questions about Qualifying Rehabilitation Work

**I understand that work must be undertaken within a 24-month period. When does that start?**

**Answer:** The 24-month period may start when eligible pre-construction costs related to the rehabilitation project are incurred. This could include certain fees as described below. If there are no pre-construction costs, the 24-month period starts when actual construction work begins after MHT certifies the Part 2 application.

**Are architectural fees eligible?**

**Answer:** Yes. Architectural, engineering, and similar consultant fees, including tax credit consultant fees, are eligible. Expenses incurred in order to prepare the application are eligible; however, in order for these fees to be included in the total rehabilitation costs, they must have been incurred within the 24-month period as described above.

**Are deposits paid prior to the Part 2 application approval eligible for the tax credit?**

**Answer:** Yes, if the work itself does not start until after the Part 2 application has been certified by MHT. Deposits are costs to secure a contractor, architect, etc. and are not payments in full. Materials purchased prior to the Part 2 application approval may not be eligible. In general, a deposit for services is a partial payment, not full payment.

**Are costs associated with a building energy audit inspection eligible?**

**Answer:** No. These costs are not eligible.

**What about acquisition costs, financing charges, and building permit fees?**

**Answer:** No. These costs are not eligible.

**Are plumbing, HVAC, and electrical systems costs eligible?**

**Answer:** Yes.

**Are landscaping and site work costs eligible?**

**Answer:** In general, costs for work associated with landscaping features such as driveways, sidewalks, retaining walls\*, gardens, etc. are not eligible. The costs associated with the rehabilitation of significant historic landscape features, such as parterre gardens, walls, fountains, fences, etc. may be eligible when there is sufficient documentation of the feature's historic significance and contributing status.

\*Retaining walls that are integral to the structure of the building may be eligible.

### **Are solar panels considered eligible expenses?**

**Answer:** Possibly. The scale, location, visibility, and installation of the solar panels must meet all requirements of the Secretary of the Interior's Standards for Rehabilitation. The system must be purchased, not rented or leased from a supplier. Solar fields or wind turbines that are detached from the structure but only service the property are eligible.

### **Are gutter cleaning and chimney sweeping eligible expenses?**

**Answer:** These expenses are not eligible unless they are part of an overall repair project to the gutters or chimney. Expenses that are solely for cleaning of these features is not a capital expenses and therefore not eligible for the credit.

### **I want to replace my kitchen and bathrooms, but I'm concerned that these expenses do not qualify and will be considered "remodeling only." Can you provide guidance?**

**Answer:** The rehabilitation of existing kitchens and bathrooms in good repair with no or few defects is likely to be determined to be remodeling and the costs not eligible for the credit. The purpose of the Heritage Structure Rehabilitation Tax Credit Program is to "return a structure to a state of utility." Many kitchen and bathroom replacement projects include no work that would be considered rehabilitation.

Projects described in a proposed plan of rehabilitation submitted with the Part 2 application and determined by MHT to be primarily remodeling will not qualify for the tax credit program. Projects that include appropriate rehabilitation of deteriorated spaces and spaces that function but have reached the end of their useful life, including kitchens and bathrooms, will continue to be considered rehabilitation work and eligible for the program. Eligibility will be determined as part of the Part 2 application review. It is recommended to reach out to tax credit staff prior to submitting the application to discuss your project and whether it may be eligible.

### **Are additions, new patios, back decks, new roof decks, or similar new construction eligible?**

**Answer:** No. The costs for new construction are not eligible for the credit. However, the work must still be reviewed and approved for compliance with the Secretary's Standards for Rehabilitation along with the eligible work items. If you are proposing a new addition, it is recommended to reach out to tax credit staff prior to submitting the application to discuss your project and whether it may comply with the Standards.

### **Are rehabilitation costs for barns, garages, and other outbuildings eligible?**

**Answer:** If these structures are historically associated with the residence and contribute to the significance of the property / district, are not used for any type of commercial use, and have not been fully depreciated, the rehabilitation costs may qualify. Non-historic detached structures are not eligible.

**I have a family room that was added to the house in the 1980s / non-historic and needs to be rehabilitated. Do these costs qualify?**

**Answer:** Yes. Existing additions to historic structures are considered part of the overall structure, even though they do not have historical significance. Changes to these additions must still be reviewed for conformance with the Secretary's Standards for Rehabilitation.

**Are interior finishes eligible?**

**Answer:** Interior capital expenditures are eligible for the credit. This typically means finishes that become part of the structure. Eligible costs may include repair or restoration of wainscoting, mantels, interior shutters, molding, floors, plaster, and paint. Kitchen cabinets may also be eligible as part of the rehabilitation. Items that are not eligible include, but are not limited to: kitchen appliances, washers, dryers, carpet, drapery, window treatments, pictures, furniture, and closet shelving installation. Consult MHT tax credit staff for a final determination of eligibility.

**I want to remove a wall or portion of a wall to create an open concept floor plan to better meet my modern living style. Is this qualifying work?**

**Answer:** Possibly. Although the open floor plan concept has become increasingly popular, especially on home renovation shows, typically the removal of a wall or portion of a wall is not an appropriate treatment for historic properties. The removal of historic material (walls) alters the existing spatial relationship between rooms that were historically separate for design, function, and formality. The historic floor plan is significant and character-defining of the property. Removal of a wall or portion of a wall may be considered if there is evidence that the wall did not exist in that location historically (i.e. – it was installed during a more recent renovation). Each project is reviewed on an individual basis.

**My historic house had vinyl siding installed by a previous owner. If I am not planning to remove it as part of my rehabilitation project, will my project still be eligible for tax credits?**

**Answer:** Yes. MHT will not require owners to replace vinyl, aluminum, or any other non-historic siding installed by a previous owner if there is no work planned for this feature.

**If the house is damaged and I am reimbursed by my insurance company to pay for the repairs / restoration, can I include those expenses in my Total Qualified Rehabilitation Expenditures on the Part 3 application and claim a credit for them?**

**Answer:** No. Expenses reimbursed by an insurance company cannot be claimed. These costs must be subtracted from the Total Qualified Rehabilitation Expenditures on the Part 3 application and must be documented as such in the Itemized Expense Spreadsheet submitted with the Part 3 application. Note: For this reason, insurance proceeds should not be factored into the Part 2 Estimated Rehabilitation Expenditures total (QRE) amount.

**If I will be receiving additional funding to help with the rehabilitation of my property from any State or local government agencies, such as grants, loans, or State energy tax credits, can I claim these expenses as well toward the credit?**

**Answer:** No. Additional funding such as State or local grants, loans, or State tax incentives from a State agency or local government are not eligible and must be subtracted from the Total Qualified Rehabilitation Expenditures on the Part 3 application. However, any anticipated funds from a local tax incentive program do not need to be subtracted from the final qualified rehabilitation expenditure amount. This must be documented on the Itemized Expense spreadsheet. State loans given at a non-discounted rate may be eligible. Contact tax credit staff for additional guidance.

**What if I am receiving additional funding from a Federal agency, such as a Federal energy tax credit? Do I need to back these costs out of the final rehabilitation expenditure total on the Part 3 application as well?**

**Answer:** No. Additional funding from a Federal agency that pertains to the rehabilitation of your property does not have to be subtracted from the qualified expenditures on the Part 3 application.

**I am still within my 24-month period and have additional projects and/or a change to the approved scope of work. What do I need to do?**

**Answer:** If at any time during work you find additional work items you'd like to undertake or have changes to the approved scope of work, you can submit an Amendment form. These are found on MHT's Homeowner tax credit website with the Part 1, Part 2, and Part 3 applications. Like the Part 2 application, new work or changes to approved work on an Amendment form must be reviewed and approved by MHT prior to commencing those work items to be eligible for the credit. You may submit as many Amendment forms during the 24-month period as necessary.

**Can I get a tax credit for work I perform myself?**

**Answer:** Yes. However, only the costs for the purchase of materials are eligible for the credit. A homeowner's personal labor time is not eligible for the credit.

## **The Review Process**

**How long will it take MHT to process my application?**

**Answer:** Applications are handled on a first-come, first-served basis. MHT's review of a complete application is generally 30-45 days but may differ depending on the volume of tax credit applications. Also effecting the review period is the completeness and clarity of the application. Please be sure you have read through ALL the FAQs, application instructions, and the Mandatory Application Checklist (found at the end of each application) prior to submitting your application.

### **Is there a fee for reviewing my application?**

**Answer:** There is no review fee for the Part 1 application. The Part 2 application must be accompanied by a \$10 processing fee in the form of a personal check. The Part 3 application review fee is 3% of the amount of the tax credit (20% of the greater of the estimated or final qualified expenditures) for the rehabilitation project less the initial \$10 processing fee submitted with the Part 2 application. The final fee payment is payable only by personal check to the Maryland Historical Trust. For additional information on review fees, please read the application instructions.

### **Can I begin the rehabilitation before my application has been approved?**

**Answer:** Any work started and/or completed prior to MHT's review and approval is not eligible for the tax credit. This work would start the 24-month period and must still be reviewed for compliance with the Secretary's Standards for Rehabilitation. Work started and/or completed prior to approval may jeopardize the credit for the entire project if it does not conform to the Secretary's Standards.

### **Last year, I completed a rehabilitation project but only recently heard about the State tax credit program. Can I still apply for the credit?**

**Answer:** No. Completed projects are not eligible for this program. Qualified rehabilitation expenditures are only those incurred AFTER the Part 2 application is certified by MHT.

### **My local historic preservation commission has already approved my rehabilitation project. Do I also need MHT's approval to begin work?**

**Answer:** Yes. If you anticipate utilizing the state tax credit, MHT must review and approve the Part 2 application prior to starting work. MHT is the only agency charged with administration of the state tax credit program. Therefore, a local or federal approval does not override MHT's review and approval, and vice versa.

### **What are the Secretary of the Interior's Standards for Rehabilitation?**

**Answer:** The Secretary of the Interior's Standards for Rehabilitation are a set of ten guidelines for the treatment of historic properties set forth by the National Park Service.

### **How does MHT interpret the Standards for purposes of the State tax credit program?**

**Answer:** MHT takes a conservative stance on the interpretation of the Secretary's Standards. If you have questions about whether your proposed project will comply with the Standards for the state tax credit program, MHT recommends contacting tax credit review staff for initial guidance prior to submitting the application.

**It appears that there are some differences in how local, state, and federal agencies interpret the Standards. Why aren't the Standards interpreted uniformly regardless of which agency applies them?**

**Answer:** MHT cannot speak to the way in which preservation professionals from other agencies interpret the Standards. In the event that there is a difference in the way MHT and any other agency interprets the Standards, the MHT's interpretation will be final for the purpose of the state tax credit program.

**I submitted a Part 2 application to the tax credit program last year; however, the Part 2 was denied for proposed work not meeting the Standards. Can I re-apply now with a new Part 2 for additional proposed work to my property?**

**Answer:** Yes. If you did not complete the denied work, then you must provide MHT proof that you have not done any of the work that was denied in the previous Part 2 in the interim. If you did complete the denied work from the previous Part 2 application, then this would negate your ability to apply for the state tax credit for 24-months.

**The last application that I submitted to MHT for tax credits was denied at the Part 3 for completed work that was inconsistent with the Standards. Can I re-apply even though my previous Part 3 application was denied?**

**Answer:** Yes, depending on what the start date was for the work that was included in the previously denied Part 3 application. The tax credit program is set up in 24-month intervals; therefore, the start date for any work proposed in the new Part 2 application must exceed 24-months from the project start date that was stated in the previously denied Part 3 application.

**What happens if I spend \$250,000 in less than 24-months, but still have additional work to complete?**

**Answer:** The tax credit is capped at \$50,000 (\$250,000 in eligible expenditures) in a 24-month period. Additional expenses within a 24-month period that go beyond \$250,000 are not eligible for the tax credit, but the work must still be reviewed for compliance with the Standards. You may submit a new application to continue work in a separate contiguous 24-month period.

**Does all the work I'm undertaking within the 24-month period have to comply with the Secretary's Standards for Rehabilitation?**

**Answer:** Yes. All work, whether eligible for the credit or not and whether you are claiming the credit for it or not, must comply with the Standards. All work anticipated within the 24-month period, regardless of eligibility, must be described in the Part 2 application or subsequent Amendment form for review and approval for compliance with the Standards. Alterations that do not meet the Standards and were not included in the Part 2 application or an Amendment form may result in a denial of the entire application.



### **If the rehabilitation work described in my Part 2 application is for the exterior only, why do I need to submit photographs of the interior of my property?**

**Answer:** The MHT is required, for auditing purposes, to verify that all work was completed in accordance with the project approval and that all work complies with the Secretary's Standards for Rehabilitation. These photographs establish a baseline record of the entire property at the time the tax credit application is submitted. Upon completion of the project, the Part 2 photographs (pre-rehabilitation) and Part 3 photographs (post-rehabilitation) are used for a comparison review to ensure only the approved work was completed and all work complies with the Standards. If a full set of interior and exterior photographic documentation of the property prior to rehabilitation is not provided, review and evaluation of the Part 2 application cannot be completed and may result in a denial of the application.

### **Does it matter when the photographs of my property were taken?**

**Answer:** Photographs submitted with the Part 1 and Part 2 applications provide a baseline of current conditions for the Part 2 application review. It is in the owner's best interest that photographs be current with the time in which the application is being submitted. Generally, MHT does not accept photographs that are more than 90-days old as these may not accurately represent the property as it exists at the time the application is received and reviewed. Photographs submitted with the Part 3 application must be a complete new set (post-rehabilitation) of the entire exterior and interior of the property, even where no work was undertaken. MHT must be able to verify that only the approved work was completed and that all completed work complies with the Secretary's Standards for Rehabilitation. The Part 2 (pre-rehabilitation) and Part 3 (post-rehabilitation) photographs are compared side-by-side during the Part 3 review.

### **How is the review of my application impacted by other relevant or applicable laws?**

**Answer:** The property owner is responsible for complying with all federal, state, and local laws applicable to the project. This responsibility may include, but is not limited to, compliance with local zoning, building, and lift safety codes; review by local historic preservation commissions; and federal and state licensing, permitting, and environmental requirements. Note: Certification from MHT of a final project in no way constitutes compliance with any of the above laws or regulations.

## **Questions about the Part 3 Application**

### **When are Part 3 applications due?**

**Answer:** There is no deadline for submitting a Part 3 application. The tax credit is claimed in the taxable year in which the entire project is completed. MHT recommends submitting a Part 3 by February 1<sup>st</sup> to ensure the review is completed prior to the April filing deadline with the Comptroller. If you are unable to submit prior to February 1<sup>st</sup>, it is MHT's understanding that you may amend your taxes and/or request a filing extension with the Comptroller. All questions about amending your taxes, filing for an extension, or claiming the credit should be directed to the Comptroller's Office.

### **I decided not to undertake some of the approved work described in my Part 2 application. What should I do before submitting the Part 3 application?**

**Answer:** You should include an Amendment form with the Part 3 application stating what work you did not undertake. If you wish to undertake that work in the future, you must file a new Part 2 application. The new Part 2 is a stand-alone file that must include all required information showing the current state of the property at the time of the new submission.

### **Should I submit receipts with the Part 3 application?**

**Answer:** Yes. Copies of invoices and certifiable proof of payment for the work undertaken and a list of the costs incurred showing how you calculated your qualified rehabilitation expenditures must be submitted. The Expense Spreadsheet instructions contain additional information on invoices and certifiable proof of payment, as well as a sample spreadsheet that shows how your paid receipts / invoices must be broken down and itemized for the purposes of the tax credit program. This itemized spreadsheet must be submitted with your Part 3 application.

### **I purchased a home through a developer pass-through. What do I need to submit?**

**Answer:** This works the same way as any other Homeowner application. The property must be purchased within the 24-month period for the new owner to claim the credit. The new owner must submit the Part 3 application with all required documentation, including the Itemized Spreadsheet, photographs, invoices, and certifiable proof of payment. Note – purchasing a home from a developer does not guarantee the tax credit. Only upon submission of the Part 3 application and MHT's review of the completed work, invoices, and proof of payment can the tax credit be certified. If the required financial documentation cannot be provided with the Part 3 application, MHT will not be able to certify the tax credit project.

## **Claiming the Credit**

### **Is the credit fully refundable? Do I just get a check?**

**Answer:** To the extent the credit exceeds the taxpayer's tax liability, the credit is refundable. You must file for the credit with the Comptroller of Maryland for the tax year in which the entire project as described in the Part 2 was completed. Use Maryland Form 502S specific to the year in which you are filing. The certified Part 3 application must be attached to Form 502S. Questions about claiming the credit should be directed to the Comptroller of Maryland's office.

### **Can a non-resident of Maryland claim the credit / refund?**

**Answer:** Yes. The program has no restrictions on residency. However, remember that the structure must still be the taxpayer's owner-occupied, single-family residence. It may not be depreciable or rented.

### **Do I have to pay federal income taxes on the refund the following year?**

**Answer:** Possibly. The IRS considers the State income tax refund to be taxable income. Questions about federal taxes should be directed to the IRS.

### **Can I apply for the Homeowner tax credit more than once?**

**Answer:** Yes. You may submit a new application every 24-months to continue work on your property.

## **Recapture Rule**

### **I received tax credits for a rehabilitation project certified by MHT one year ago. If I plan to do additional work on the same structure this year that will not conform with the Secretary's Standards, do I risk losing my previous credit?**

**Answer:** Yes. If disqualifying work is undertaken on a property that has received tax credits, the credits will be recaptured. Below is a chart showing the percentage of recapture per year after the credit has been claimed:

Year 1	100%
Year 2	80%
Year 3	60%
Year 4	40%
Year 5	20%

After 5 years, the credit is not subject to recapture.

### **I received tax credits for a rehabilitation project certified by MHT within the past five years. I now have additional work I'd like to undertake on the same structure and don't plan to claim the credit, but don't want to cause a recapture of my previous credit. What do I need to do?**

**Answer:** If you plan to undertake additional work after claiming the credit, but don't plan to claim the credit, you should submit an Amendment form describing all new work you anticipate. MHT will review to ensure the new work is compliant with the Standards without cause for recapture. The Amendment form will be added to your previous tax credit file as an update to the file.

### **If I sell my house during the 5-year recapture period, do I risk losing my previous tax credit? If the new homeowner undertakes disqualifying work during the remaining recapture period, is there a recapture?**

**Answer:** No. A homeowner may sell their property after claiming the tax credit. If the new owner undertakes disqualifying work, the previous owner is not responsible and will not have a recapture of the credit.